

6/11/08

Submission No:.....	18
Date Received:.....	6/11/2008
Secretary:.....	J. Luthall



Australian Government

Austrade

**Inquiry into Australia's Trade and Investment
Relations with Asia, the Pacific and Latin
America**

**Austrade's Submission to the
Joint Standing Committee on Foreign Affairs,
Defence and Trade**

October 2008

Contents

1. Introduction	1
2. Austrade's role	1
3. Austrade's presence in these regions	1
Latin America	2
North East Asia	2
ASEAN	3
South Asia	4
Pacific	4
4. Trends and opportunities	5
Latin America	5
North East Asia	6
ASEAN	9
South Asia	11
Pacific	12
Inter-regional developments	13
5. Austrade's strategies and priorities	14
Latin America	14
North East Asia	16
ASEAN	17
South Asia	18
Pacific	19
6. Delivering Results for Australian Business	19
Latin America	19
North East Asia	20
ASEAN	22
South Asia	23
Pacific	23
7. Issues for Australian Business	24
Latin America	24
North East Asia	25
ASEAN	26
South Asia	26
Pacific	26
8. Conclusion	27
Appendix A	28

1. Introduction

The Australian Trade Commission (Austrade) is established by the *Australian Trade Commission Act*. It is a prescribed agency subject to the *Financial Management and Accountability Act 1997* and the *Public Service Act 1999* and is part of the Foreign Affairs and Trade portfolio. Austrade is responsible to the Minister for Trade.

This submission seeks to assist the Committee's consideration of some of the trade and investment issues outlined in its terms of reference for this inquiry, including existing trade and investment relations, likely future trends, and the role Austrade plays in assisting Australian companies maximise opportunities in these regions.

During the preparation of this submission the financial crisis erupted across the globe and as yet it is unclear what the ultimate impact will be on regional export markets and the domestic economy.

2. Austrade's role

Austrade is the Australian Government's trade and investment development agency assisting Australian businesses contribute to national prosperity by succeeding in trade and investment, internationally, and promoting and supporting productive foreign investment into Australia.

Austrade exists to provide a range of practical assistance measures, both in Australia and in key export markets around the world, to help Australian companies develop their export capabilities and find opportunities overseas, and to promote investment opportunities within Australia throughout the world.

Austrade

- delivers services that assist Australian businesses initiate, sustain and grow trade and outward investment;
- promotes Australia as an inward investment destination and, with the States and Territories, supports the inflow of productive foreign direct investment;
- administers the Export Market Development Grants (EMDG) scheme;
- undertakes initiatives designed to improve community awareness of, and commitment to, international trade and investment;
- provides advice to the Australian Government on its trade and investment development activities; and
- delivers consular, passport and other Government services in designated overseas locations.

Austrade operates through a global network of offices, with representatives overseas in over 110 locations in more than 60 countries. Across Australia, Austrade operates 18 offices and a network of 50 Trade Start offices including eight Export Hubs, in partnership with public and private sector ally organisations.

3. Austrade's presence in these regions

Austrade's regional presence in Asia, the Pacific and Latin America is separated into the following regions:

- Americas (covering Canada, the United States and Latin America) managed by Regional Director, Grame Barty, based in Los Angeles;
- North East Asia (covering China, Japan, Korea, Hong Kong and Taiwan) managed by Regional Director, Laurie Smith, based in Shanghai; and
- South East Asia, South Asia and the Pacific (covering ASEAN, the Indian subcontinent, New Zealand and the Pacific) managed by Regional Director, David Twine, based in Singapore.

Maps showing Austrade's presence in these regions are provided in Appendix A.

Latin America

Austrade's Latin America Sub-Region is managed by the Senior Trade Commissioner in Santiago. Austrade operates from seven locations in Latin America: Mexico City (Mexico, Central America and the Caribbean); Lima (Andean Region including Peru, Ecuador, Colombia, Venezuela and Bolivia); Bogota (Colombia); Santiago (Chile and Bolivia); Buenos Aires (Argentina, Uruguay and Paraguay); Sao Paulo and Belo Horizonte (Brazil).

Table 1: Austrade staffing across Latin America

<i>Location</i>	<i>A-based Staff</i>	<i>Locally Engaged Staff</i>	<i>Totals</i>
Mexico City	1	5	6
Lima	1	5	6
Bogota	-	1	1
Santiago	1	4	5
Buenos Aires	-	4	4
Sao Paulo	1	5	6
Belo Horizonte	-	1	1
Totals	4	25	29

North East Asia

Austrade has a network of 23 offices throughout North East Asia (NEA), in the markets of Japan, Korea, China, Hong Kong, Macau and Taiwan¹. There are 13 offices in mainland China, five offices in Japan, two in Taiwan, and one each in South Korea, Hong Kong and Macau. With the exception of Tokyo, all Austrade posts in Japan also have consular responsibilities.

Table 2: Austrade staffing across North East Asia²

<i>Location</i>	<i>A-based Staff</i>	<i>Overseas Engaged Staff</i>	<i>Subtotal</i>
China	11	69	80
Hong Kong & Macau	1	11	12
Taiwan	2	14	16
Japan	6	39	45
Republic of Korea	3	12	15
<i>Total NEA region</i>	23	145	168

NEA also has coverage of Mongolia and the DPRK (North Korea). At present, Australian companies active or interested in these markets are supported by Austrade's Beijing office.³

In response to increasing demand from Australian companies, the China network has expanded considerably in the past decade. Since 2005, it has encompassed 13 offices

¹ Australian Business Centres in Taiwan

² Figures correct as of 30 June 2008 and include support staff.

³ From 1 November this support will move to Austrade's Seoul office.

across mainland China plus two more in Hong Kong and Macau. The four major hub posts of Beijing, Shanghai, Guangzhou and Hong Kong are managed by A-based staff. A further 11 'sub-posts', which do not have consular status, are staffed by between one to three overseas-engaged employees with strong knowledge of local opportunities and business networks.

ASEAN

Austrade operates from eight locations in seven countries across South East Asia (Bangkok, Hanoi, Ho Chi Minh City, Jakarta, Kuala Lumpur, Brunei, Manila and Singapore) plus representation by a local agent in Cambodia and Laos. Austrade does not have representation in Burma.

The ASEAN region is separated in ASEAN North, managed by the Senior Trade Commissioner Bangkok, and ASEAN South, managed by the Senior Trade Commissioner Jakarta. Most posts are managed by one Senior Trade Commissioner, in some cases assisted by one or two Trade Commissioners.

Since 1 July 2008 Austrade has reorganised the ASEAN region into regional industry teams. In addition to their local Post accountabilities, each Senior Trade Commissioner and Trade Commissioner in the ASEAN region now leads a regional industry team. These teams, which complement the industry coverage of Austrade in Australia, covering about 97 per cent of Australian industry, increase opportunities for clients to migrate across the region after success in one market. The teams cover the following industry sectors:

- Agribusiness and Consumer
- Automotive and Advanced Manufacturing
- Clean Energy and Environment
- Creative Industries
- Education and Business Services
- Financial Services
- Food and Beverage
- Health, Biotechnology and Wellbeing
- ICT
- Infrastructure and Mining

Table 3: Austrade staffing across ASEAN

<i>Location</i>	<i>A-based staff</i>	<i>Overseas Engaged Staff</i>	<i>Subtotal</i>
Bangkok	2	17 ⁴	19
Hanoi	0 ⁵	5 ⁶	5
Ho Chi Minh City	1	7	8
Jakarta	3	17	20
Kuala Lumpur	2	14	16
Brunei	0	1	1
Manila	1	11	12
Singapore	2	16 ⁷	18
Totals	11	88	99

⁴ includes 2 vacancies

⁵ A-based position vacant

⁶ includes 1 vacancy

⁷ includes 2 Investment staff and excludes RD 2 office support

South Asia

Austrade's South Asia region is managed by the Senior Trade Commissioner in New Delhi. A further two Trade Commissioners are based in New Delhi, and one in each of Mumbai and Chennai, who both also operate as Australian Consuls-General.

Overall, Austrade operates from seven locations across India (New Delhi, Mumbai, Chennai, Bangalore, Kolkata, Chandigarh and Hyderabad) and is represented in Pakistan (Islamabad, Karachi and Lahore), Bangladesh (Dhaka) and Sri Lanka (Colombo).

The Austrade South Asia network is similarly organised into an industry team matrix across all posts in the sub-region. The five industry teams are:

- Infrastructure and Major Projects
- Services
- Agribusiness / Food & Beverages
- Advanced Manufacturing and Technology
- Emerging Sectors

Table 4: Austrade staffing across South Asia

Location	A-based	Locally Engaged Staff	Subtotal
New Delhi	3	13 ⁸	16
Mumbai	1	15 ⁹	16
Chennai	1	8	9
Bangalore	-	1	1
Chandigarh	-	1	1
Hyderabad	-	1	1
Kolkata	-	1	1
Islamabad	-	1	1
Karachi	-	1	1
Lahore	-	1	1
Colombo	-	2	2
Dhaka	-	2	2
Totals	5	47	52

Pacific

Austrade's Pacific Region is managed by the Senior Trade Commissioner in Auckland, who is also the General Manager, Pacific Markets and Consul-General, Auckland. In addition, Austrade operates from three locations in the Pacific: Port Moresby in Papua New Guinea, Suva in Fiji and Noumea in New Caledonia.

Table 5: Austrade staffing across the Pacific

Location	A-based Staff	Locally Engaged Staff	Subtotal
Port Moresby	1	4	5
Suva	1	3	4
Noumea	-	1	1
Totals	2	8	10

⁸ includes 1 vacant Investment position

⁹ includes 2 CoE positions

4. Trends and opportunities

Latin America

Australian trade with Latin America is growing at a rapid rate, although remains modest in comparison with our major trading partners.

- Australian merchandise exports to the whole of Latin America are roughly on par with countries such as Malaysia, South Africa, Canada and Italy, around A\$2-3 billion in 2007.
- Australian services exports to Latin America were estimated at A\$906 million in 2007.
- Reported Australian investment in Latin America (not including the Caribbean) as at 30 July 2008 was \$4.255 billion, although a very large amount of investment in the region is confidential and therefore not included in this figure.
- Australia's top three trading partners in the region (2007-08 preliminary figures) are Brazil (total trade of \$1.91 billion); Mexico (\$1.78 billion); and Chile (\$764 million).¹⁰ Coal was Australia's stand-out export to each of these countries. Australia imported mostly end-products such as vehicles, computers, engines and telecommunications equipment.
- Austrade was credited by Australian businesses with directly assisting \$1.485 billion worth of sales and investment in Latin America during 2007-08.

With a population of over 500 million and a combined GDP of almost A\$4.0 trillion, Latin America has the potential to be a much larger trading partner with Australia.

In the past decade Australia has diversified its business in the region not only into the export of mining-related services but also into agribusiness, wine-related technologies, consumer goods, professional services and food and beverage exports.

80% of Australian success in Latin America is over five broad sectors

- Mining (technology and services);
- Agribusiness (products, genetics, live animals);
- Services (education, consulting, franchising and tourism);
- Food and beverage (specialised, wine and beer); and
- ICT (communications, software).

Major additional areas of commercial return continue to grow including:

- Renewable energy (hydro – mini, wind); and
- Coal (Mexico, Chile, Brazil)

The growth in Australian trade with Latin America is occurring against a backdrop of significant change in the regional economic dynamics of the Americas. The major economies of Latin America are experiencing an economic “de-coupling” from dependence on US economic fortunes.

Like Australia, Brazil, Canada, Chile, Peru, Argentina and now Colombia are net beneficiaries of the current energy and environmental crisis through increased, high value per unit resource, energy and agricultural commodity exporting. Brazil

¹⁰ The export values for iron ore and coal for the preliminary 2007-08 composition of merchandise trade tables does not yet include the value of the recent contract price rises for iron ore and coal announced in 2008.

especially, as a BRIC country, now has the potential to reach unprecedented levels of GDP and per capita wealth as a global food bowl and net exporter of energy, including flex-fuel and other resources.

If environmental conditions deteriorate further in Australia we may envisage that Australian companies will re-structure their commodity production through outwards investment by either:

- In-market investment of agricultural production or mining to regional markets such as in Argentina, Brazil, Chile or Peru to secure existing Australian originated contracts for re-export, or
- Investing in new originating 'global food security commodity producing' countries in this region such as Brazil and Argentina, where water, energy and arable land is in abundance. Examples of Australian investment of this type include Boundary Bend olive oil production in the region, Lindemans Wine production in Chile and Timbercorp investment in Argentina for forest plantations.

We are also witnessing an increased interest in Australia within Latin America as a potential springboard for growing business ties with Asia with good prospects for inward investment and partnering opportunities developing.

Australian investment in Latin America facilitated by Austrade has grown 300% since 2007 with \$450 million of investment in the past 12 months undertaken by 30 companies diversified across the region including:

- Argentina - Boart Longyear Pty Ltd. - Bought two Argentine drilling companies in Mendoza- investment \$11 million.
- Boundary Bend Estate Ltd - Invested in an olive oil property off shoring its olive oil production into Latin America - investment \$3 million.
- Peru - Newcrest Mining. Value \$3.5 million.
- Peru - Orica Chemicals. Value \$1.17 million. Chemicals plant north of Lima.
- Chile – Transfield Services – Acquired local 1,000 person engineering services company – investment \$20m.
- Mexico - Orica established a plant for manufacture of explosives in the North valued at \$8 million.
- Kings Minerals - exploration value \$20 million.
- Brazil - Pacific Hydro \$160 million investment in alternative energy generation (wind power) at Millennium site in north east Brazil.
- Brazil - Mundo Minerals \$18 million investment in the Engenho gold mine in Minas Gerais for gold production.

North East Asia

Client outcomes

In each of the past two financial years (06-07 & 07-08), Austrade's NEA team has provided services to 4452 and 3899 clients respectively. In total, the team assisted over 6,600 export successes during this period.

Table 6: Clients serviced and export success in NEA

Clients serviced and export success						
Financial Year	2006-07			2007-08		
	Clients serviced	Export success	Export Value (\$m)	Clients serviced	Export success	Export Value (\$m)
China	2179	1127	1760	1636	1265	1000
Hong Kong & Macau	852	350	290	756	350	121
Taiwan	683	338	634	726	351	696
Japan	1360	1115	1050	1167	948	1150
Republic of Korea	538	365	1400	630	395	425
Mongolia	0	3	2	0	2	0.3
Total	4452	3298	5136	3899	3311	\$3392

In this time, Austrade's NEA posts also facilitated 67 Australian investment successes into the region, more than two thirds of which related to China.

Table 7: Outward Investment Success in NEA

Outward Investment Success				
Financial Year	2006-07		2007-08	
	Number of successes	Investment Value (\$m)	Number of successes	Investment Value (mil)
China	29	257	17	259
Hong Kong & Macau	3	0.3	3	0.5
Taiwan	3	900	2	4
Japan	0	-	5	14
Republic of Korea	2	45	3	2
Total	37	1202	30	279

Japan, China and Korea are Australia's top three export markets. China has been the fastest growing large market for Australia during the last decade, accounting for 14.9 per cent of goods exports in 2007-08 compared to 4.4 per cent ten years earlier in 1997-8 (Source: Austrade/DFAT). Nevertheless Japan remains our top market by a considerable margin.

Commodities, including minerals, fuels, grains, wool and sugar, account for about two-thirds of Australian exports to most large markets in North East Asia (Japan, China, Taiwan and Korea). However Australia's exports of manufactures and services to these markets are also substantial and growing.

Table 8: Major markets for Australia in NEA

Exports of goods (rank 2007-08)		Exports of services (rank 2006-07)	
Japan	1	Japan	6
China	2	China	3
Korea	3	Korea	7
Taiwan	8	Taiwan	17
Hong Kong	14	Hong Kong	9

Source: DFAT / ABS

Japan has long been a major investor in Australia, as is Hong Kong. China has rapidly emerged as a significant source of investment especially, but not only, in the resource sector.

Table 9: Total investment in Australia from NEA markets

Inward Investment as 31 December 2007*			
	A\$m	Rank	% of total foreign investment
Japan	57,520	3	3.5
Hong Kong	41,656	5	2.5
Republic of Korea	7,794	15	0.5
China	6,234	17	0.4
Taiwan	4,112	20	0.2

* Note that ABS does not provide investment figures for the Financial Year.

China is the most important destination for foreign *direct* investment (FDI) by Australia in the region followed by Hong Kong. FDI in Japan was historically low but has begun to rise in recent years. Japan and Hong Kong are the largest destinations for portfolio investment from Australia and portfolio investment into China is now permitted under its 'Qualified Foreign Institutional Investor' scheme and is rising.

Table 10: Total Australian investment into NEA markets

Outward Investment as 31 December 2007*			
	A\$m	Rank	% of total foreign investment
Japan	35,140	6	3.6
Hong Kong	17,011	10	1.7
Republic of Korea	8,893	12	0.9
China	5,152	14	0.5
Taiwan	2,793	26	0.3

* Note that ABS does not provide investment figures for the Financial Year.

Key trends within North East Asia

Trade flows within the region are huge and are matched by very large intra-regional investment flows. China is now the main growth driver of the region, overtaking the US as the top export market for Japan in 2008 (as it already was for Korea, Hong Kong and Taiwan).

Despite its recent slow growth, Japan has for several decades been a key source of foreign investment across East Asia while Taiwan, Hong Kong, Japan and Korea all rank in the top six sources of foreign investment in China.

In 2008 China's export growth has slowed and increased infrastructure investment is likely to be a key underpinning of sustained growth over the next few years. Spending on environmental remediation, clean energy and health, education and the social safety net will also continue to rise. Continued urbanisation and steadily rising incomes continue to transform consumer purchasing patterns as China's urban middle class grows in size and sophistication and the Government is actively seeking to stimulate consumer spending to further support domestic demand.

Japan has spent ten years focused on corporate restructuring and R&D with subdued growth in consumer spending. But Japan is now poised for a renewed surge in overseas investment following the recovery of its banking sector and strong corporate profits among its leading internationally-oriented firms. The retirement of Japan's baby boomers – the '*dankai* generation' – is also creating a huge new market. This demographic accounts for the bulk of Japan's US\$14 trillion in household financial assets, an amount equal to the entire household savings of the rest of Asia.

Korea, Taiwan and Hong Kong are also attractive high-income consumer markets. Korea retains a strong industrial base, albeit somewhat squeezed between Japan and

China but most manufacturing in Taiwan has now migrated to mainland China (as Hong Kong's manufacturing did in the 1980s and early 1990s).

Hong Kong remains the key regional entrepôt but the nature of its role is changing. While a smaller share of China's physical trade is now routed through Hong Kong, it is a valuable gateway to China (reinforced by preferential treatment under its Closer Economic Partnership Agreement) and Hong Kong remains the pre-eminent regional centre in financial and professional services and sourcing/ logistics.

Opportunities

The following table summarises in broad terms, areas of opportunity for Australian companies in the markets of NEA. Naturally the size of the market opportunities and the weight of priority can vary between markets.

Table 11: Opportunity sectors in NEA markets (Source: Austrade NEA assessment)

Agribusiness	Japan, China, Korea, Taiwan
Fashion / non-food consumer	Japan, China, Korea, Hong Kong
Automotive	China, Korea
Marine	China, Taiwan
Creative industries	Japan, China, Korea, Hong Kong
Clean energy & environment	Japan, China, Taiwan, Hong Kong
Education and training	Japan, China, Korea, Taiwan, Hong Kong, Macau
Business services	Japan, China, Korea, Taiwan, Hong Kong
Food	Japan, China, Korea, Taiwan, Hong Kong, Macau
Wine	Japan, China, Korea, Taiwan, Hong Kong, Macau
Financial services	Japan, China, Korea, Taiwan, Hong Kong
Biotech and medical equipment	Japan, Korea, Taiwan
Health and well-being	Japan, China, Korea, Taiwan, Hong Kong
ICT	Japan, Korea, Taiwan, Hong Kong
Building and construction	China, Hong Kong, Macau
Mining	China, Mongolia

ASEAN

ASEAN has a population of over 570 million and a combined GDP of almost US\$ 1 trillion. When viewed as a single market, ASEAN is Australia's third largest export destination behind Japan and China, with exports in 2007 running at around \$18 billion. In terms of two-way trade, it is Australia's number one trading partner at \$55 billion, ahead of China and Japan. About half of Australia's 30,000 plus exporters do business in ASEAN markets. This figure is more than those exporting to the US, China and Japan combined.

The economies of ASEAN are at a crucial stage of their development as they adjust to progressive trade liberalisation and market opening, both within the region and globally. ASEAN is no longer just an association of neighbouring countries, but is progressively becoming an integrated market that possesses significant unrealised potential and complementarities.

With the exception of Singapore, the market is not mature and provides room for aggressive growth. The emergence of ASEAN as a perceived economic entity has potential – both as a production base to penetrate regional and global supply chains, and as a target market. Its low-cost structure – although not as low as that of China or India – and 570 million consumers plus the closer geographic distance make ASEAN an attractive alternative, or complementary, destination (to China and India) for companies already embedded in the region or those seeking to enter it. In addition, ASEAN member countries have agreed in principle to create an ASEAN Community by 2015, creating a common and consistent trading environment.

Companies operating within ASEAN (buyers of Australian goods and services which, in some cases are Australian companies already embedded in the markets) will have increased appetite for goods and services, technology, partnerships, alliances and investment from Australia. Large multinationals have even started building regional production bases to service the ASEAN market.

With bilateral FTAs between member states and economies outside the region (e.g.: Australia-Singapore; Australia-Thailand) and potentially pluri-lateral FTAs such as ASEAN-Australia-NZ FTA, a rising number of companies are evolving the way they engage with ASEAN, as an increasingly borderless market. It follows that Australian companies that seek entry into, or migration and expansion within, the ASEAN market will increasingly require a more holistic view of ASEAN with pan-ASEAN industry expertise and intelligence, and access to trusted relationship networks, and in turn “regional marketing” approaches and integrated export-investment growth strategies.

Austrade’s recent reorganisation of its ASEAN operations into regional industry teams will ensure Austrade continues to add value to client needs in this changing commercial environment and provides the kinds of strategies and tactics that work to reduce the time, cost and risk in winning business in ASEAN. Key areas of opportunity currently range across all industry sectors, with education services being the stand out performer. In 2007 over 70,000 students from ASEAN countries studied at Australian educational institutions.

Table 12: Outcomes achieved in the ASEAN region by Austrade

ASEAN	2005/06	2006/07	2007/08	Growth 06-07 to 07-08 (%)
Total number of Export Impact (EI) deals	1,640	1,921	2,316	21%
Total number of EI Clients	1,267	1,406	1,564	11%
Number of New/Irregular EI Clients	300	360	413	15%
Number of Existing EI Clients	967	1,046	1,151	10%
Clients' Export Impact Value (\$m AUD)	3,361	3,966	5,887	48%
Number of Overseas Investment (OI) Clients	33	32	51	59%
Clients' OI Value (\$m AUD)	69	82	612	650%
Total # of businesses serviced	2,336	2,198	2,072	-6%

ASEAN-Australia-New Zealand Free Trade Agreement

Although negotiations for the ASEAN-Australia-NZ FTA (AANZFTA) have concluded, it is currently too early to provide advice on where the agreement will deliver new opportunities for Australian companies. However, Austrade’s recent restructure of the ASEAN region has put the organisation in an optimal position to pursue such opportunities. In anticipation of parliamentary approvals, Austrade is preparing a commercial strategy that will identify by industry sector which countries offer key opportunities to ensure Australian companies are informed and are able to make the most of the window of opportunity offered by AANZFTA, once it comes into force.

Based on the results from the Singapore-Australia FTA (SAFTA) and the Thailand-Australia FTA (TAFTA) where export figures practically doubled after implementation, it is anticipated that AANZFTA will deliver similarly substantial export growth.

South Asia

India is one of the fastest growing economies in the world, offering enormous opportunities for Australian companies to benefit from that growth. Forecast average GDP growth for India for the five years from 2008-09 is over 7.5% pa, with imports as a share of GDP growing from 17% to over 20% over the same period. Australia's exports to India have been growing at an annual average rate of almost 29% (compared to China at 23%), although they are still narrowly based around gold, coal, education and industrial inputs. India's middle class is estimated to be around 200 million people, with 20 million being added each year.

Substantial opportunities exist for Australian companies and investors across a broad range of sectors of the Indian economy, particularly in financial and other services, infrastructure, agribusiness, food and beverages, consumer and retail, education and mining, as well as inwards investment, funds management and clean energy. Yet, curiosity by Australian companies about India is matched by widespread uncertainty over the nature of those opportunities and how to do business there. There is also very aggressive competition from other countries seeking to win market share in India.

Austrade plays a critical role in deepening and accelerating Australia's commercial engagement with India. Demand for Austrade's services has grown enormously, with total clients assisted to win business growing 280% over the four years between 2003-04 and 2007-08 (ie from 187 to 523 clients), and the value of Austrade-assisted sales growing 202% over the same period (from \$770m to \$1.56bn).

The Australia-India economic relationship has grown steadily in recent years and has the potential to increase considerably as India's economic expansion continues, although Austrade's ability to facilitate this growth is limited because existing resource in India are fully committed in servicing existing client demand.

While current exports are dominated by commodities, there are emerging opportunities in almost every sector, including IT, financial services, health, education, environmental services, biotechnology, media and entertainment, food & beverages, infrastructure, retail and tourism. Traditional sectors such as mining, oil and gas, infrastructure and agriculture will also continue to offer prospects, with the latter ranging from post-harvest services to the food processing sector.

India is also becoming a significant source of foreign direct investment, students (60,000 students enrolled here in 2007), tourists, migrants and skilled workers for Australia. India is a price sensitive market and there are still significant quarantine restrictions to agricultural imports.

Australia's appeal as an investment destination continues with total stock of foreign direct investment (FDI) from India amounting to A\$608 million (over US\$500 million) at the end of 2006, representing an increase of 89 percent from the previous year.

In **Pakistan** the main areas of opportunity for Australia in business are:

- agribusiness, (food and beverages, dairy and livestock);
- health and medical, consumer products;
- ICT, science and technology, multilateral procurement, consulting services;
- education, aviation and advanced manufactures; and
- infrastructure, building and construction, mining, oil and gas.

In **Sri Lanka** education continues to play a significant role in the relationship, with Australia the leading provider of tertiary education services. Over 5,000 Sri Lankan students currently attend Australian tertiary institutions and three Australian tertiary providers have launched distance education facilities in Sri Lanka.

Currently both Pakistan and Sri Lanka have a travel advisory of “reconsider travel” (level 4), whilst the travel advisory for some areas in those countries is “do not travel” (level 5). These travel advisories have had and continue to have an impact on clients visiting Pakistan and Sri Lanka and have also affected investment into both countries.

Bangladesh offers commercial opportunities to Australian companies operating in the energy, telecommunications, and transport sectors. Opportunities exist for Australian companies in both power transmission and distribution.

Exploration and production of natural gas has attracted a number of international oil companies, with 12 of the country's 23 exploration and production blocs currently operated jointly by international concerns.

Opportunities exist in the telecommunications industry for Australian companies to enter the market to supply mobile service equipment, consultancy and technical services. Bangladesh's railways, roads and port infrastructure are in poor condition and in need of improvement. Australian businesses are well placed to meet these services and equipment needs.

Pacific

The importance of the Pacific as a destination for Australian export businesses is evidenced by the fact that PNG, Fiji and New Caledonia all appear in the top 20 export destinations for Australian companies. This is based on the number of Australian companies doing business in each country.

While there are almost twice as many Australian companies doing business in New Zealand as in our next most popular market (USA), countries like PNG have attracted more Australian companies than any of our ASEAN markets, except Singapore. And there are more companies doing business with Fiji than with South Korea or Taiwan.

There are many reasons for the high number of Australian companies doing business with the Pacific. These include:

- the historical, where Australian companies were the closest suppliers for much of the early development needs of the region, and stayed on, establishing an on-going business presence;
- adoption of Australian standards in many Pacific countries, which largely guarantees that Australia will be a more natural or convenient supply source;
- involvement through the Australian (or other) aid program, where many companies have been encouraged to supply, build or develop their business in the region in response to a specific national development need, and have continued to do business with the host country;
- the many small and medium-sized Australian companies that have started doing business internationally by first selling to the markets of the Pacific, often described as ‘nursery’ markets by virtue of the nature and scale of demand of goods and services – in this sense these markets are collectively of strategic importance to Australia well beyond what absolute trade statistics might suggest;

- large Australian companies, including banks, have established a presence in the market through acquisitions, mergers or joint ventures as a way of continuing to expand their core business beyond Australia; and
- Australia is often the Pacific regional HQ for multinationals that supply the region, so the breadth of trade is very large.

Inter-regional developments

The information in the submission is presented in a manner which reflects Austrade's administrative arrangements, which split North East Asia and South East Asia, South Asia and the Pacific into two regions respectively, with Latin America forming a sub-region of the Americas.

These arrangements tend to drive Austrade activities in a geographic sense, however there are a considerable number of cross regional initiatives pursued by Austrade teams. Some of these are outlined below, together with observations about business and investment interests and dynamics between the broader regions that are the focus of this inquiry.

The broader dynamics of global trade and investment patterns currently affecting Australia also drive the markets of the regions that this inquiry is focussing on. The larger markets of Latin America, being economies dominated by resources exports but also with traditional trading relationships in their own region, share Australia's major trading partners of China, Japan, Korea the USA and India. While in the past Latin America has been seen as a competitor by Australia, this is evolving with business partnerships emerging to facilitate exports to resource-hungry Asian markets and also to service a growing affluent middle class within Latin America.

New Zealand has taken a strongly proactive approach in engaging with Latin America since the Asian financial crisis of the late 1990s partly driven by a need to diversify its trade interests. This approach has led to some major commercial collaboration, particularly in the agriculture sector. This engagement by New Zealand has an interesting resonance in Australia given that many of the major corporate entities operating in New Zealand are Australian subsidiaries, and most of the major New Zealand businesses leading their engagement with Latin America (such as Fonterra) also have large Australian holdings.

Latin American investment in Australia is also growing, including major investment from Brazilian mining giant Vale. At one level this reflects a view within South America that Australia is a good base from which to do business in Asia and a good source of expertise on Asian markets. This presents a substantial opportunity for Australia that is yet to be fully realised because of a general lack of domestic awareness.

As part of a strategy to build on the success of the Closer Economic Relations agreement between Australia and New Zealand, Austrade, together with its New Zealand counterpart agency, is coordinating a joint business mission in early 2009 involving Australian and New Zealand businesses in the clean energy sector. This mission will travel to Chile to look into clean energy opportunities as well as visiting two major trade and investment shows in the USA. This will be the first joint trade mission between Australia and New Zealand.

Within Asia, Austrade's teams in Hong Kong and Singapore work very closely. These are two 'gateway' markets very suitable for less experienced exports and home to many industry and trade events that attract buyers from across the whole region.

5. Austrade's strategies and priorities

Latin America

Austrade's priorities for Latin America are focussed on the five priority sectors:

- Mining (technology and services);
- Agribusiness (products, genetics, live animals);
- Services (education, consulting and engineering, financial, franchising and tourism);
- Food and beverage (specialised, wine and beer); and
- ICT (communications, software).

Austrade will also focus on additional interest in growth sectors and positioning to help Australia capitalise on emerging opportunities for outward and inwards investment.

Austrade also prioritises its geographical focus in Latin America to Argentina, Brazil, Chile, Colombia, Mexico and Peru (known internally as LATIN6 or L6). These markets have the strongest economies and best opportunities for Australian exports and investment. They also tend to be the most outward looking and open economies in the region, albeit with some caveats, particularly in the case of Argentina. Overall these markets are emerging as being very well placed to capitalise on the changing dynamics of the global economy, and closer business engagement with them is in Australia's long term strategic interest.

Areas of Change – New Opportunities

Latin America is undergoing a period of rapid change that offers new opportunities for Australia. Five key areas of change offering opportunity for Australian companies are:

1. Improving the Yield of Global Food Production

Austrade will focus on accessing production and investment opportunities in key agriculture markets (Brazil, Argentina, Peru, Chile, Colombia, Mexico) that are supplying the growing global demand for food. Particular focus will be on promoting Australian intellectual property in products and processes associated with farm productivity in the areas of land, agricultural and animal sciences such as animal genetics.

Priority market focus will include Brazil, Argentina, Colombia and Chile. Brazil, Latin America's largest economy and tenth largest economy worldwide, is a major world producer of a range of agricultural products including coffee, sugarcane, orange juice, beef, chicken and soy. Brazil is expanding its presence in world markets with these commodities and the sectors are well positioned for Australia to leverage.

Chile is within the top fifteen food exporting nations globally and is need of new technologies, investment and modernisation. Argentina is one of the largest producers of beef, dairy, wheat and corn. All markets offer international business opportunities for Australia and will be a key focus for development.

2. Supporting Strategic Agricultural production to grow global customers

With shrinking access to water and arable land in Australia, Austrade will look for investment opportunities in the agricultural markets of Brazil, Argentina, Colombia and Uruguay. Austrade will assist Australian producers to secure new points of production for customers in global markets. Priority areas of focus will include a series of sub-sectors in the horticulture market. Austrade will also investigate opportunities to leverage Mexico as a manufacturing base for clients to compete effectively in the United States market.

3. Accessing the growth in Mining, Infrastructure and Energy

Latin American countries in general are benefiting from the growth of the global resources boom. Austrade will continue to promote Australian mining technology and services expertise and also investigate opportunities for joint research and development initiatives within the mining sector. With the growth in infrastructure development and energy consumption throughout the region, Austrade will focus on identifying investment, ownership and financing opportunities for Australian companies in these sectors. Specific focus will be applied to construction, power stations, transport systems and renewable energy projects (hydro, wind, and geothermal).

4. Sustaining the Environment (Water Management and Climate Change)

In the priority markets of Chile, Brazil, Peru and Mexico, Austrade will focus on developing environmental business opportunities for Australia that will include:

- Water management and conservation;
- Increasing farm productivity including associated land sciences (such as salinity management);
- Joint research and development in the clean coal technologies;
- Energy management opportunities including carbon cap and trade systems; and
- Consulting services in environmental management in sectors such as agriculture and viticulture.

5. Capturing the Growing Middle Class

With over 500 million consumers throughout Latin America and an emerging middle class with increased disposable income, and therefore spending power, Austrade will focus on this growing sector for Australian products and services, specifically in the areas of tourism; education; fashion; beauty and lifestyle products; upmarket food and beverages; and franchising.

Austrade will implement its forward strategy for 2008-2011 by:

- Working as “Team Australia” with other Australian Government agencies and business chambers, including State government representatives;
- Developing and sustaining more customer relationships with key Latin American business contacts;
- Building migration of Australian businesses through the region from market to market;
- Aligning Austrade activities the region with new Australian Government programs;

- Communicating effectively and consistently, including using new technologies; and
- Working with the finance and investment sector in Australia to promote investment and services opportunities.

The recent signing of a free trade agreement between Australia and Chile is also having a noticeable “head-turning effect” with Australian business inquiries to Austrade’s Santiago office increasing dramatically. Austrade is capitalising on this interest in promoting Chile as a strong market in its own right but also as an excellent base for expansion into the broader \$4 trillion Latin America market.

North East Asia

In terms of geographic focus and distribution, about two thirds of Austrade’s resources in NEA are dedicated to the large multi-post networks in the mega markets of **Japan** and **China**. As noted above, the China network was expanded significantly in the first half of this decade reflecting the rapid growth of the market. That expansion occurred in second-tier- regional cities in China. Austrade’s goal is to assist companies extend their market presence from the major east coast cities of Shanghai, Beijing and Guangzhou / Shenzhen or for newcomers, develop export opportunities in slightly less competitive markets that can be attractive on a standalone basis and/or provide a springboard for entering the largest urban markets. **Korea, Taiwan and Hong Kong** are the other large markets in the region of major importance to Australia and with sizable Austrade teams in market.

The new Government has identified **clean energy/environmental technology** and the services sector, especially **financial services** as particular priorities for trade development in the Asian region and beyond.

For **new and less experienced exporters** taking their first steps into international markets, Hong Kong stands out as the most open and relatively welcoming gateway market in NEA while the pace of growth in China means that there are many new importers and partners looking for new ideas and new suppliers.

In addition to tailored advice for new exporters and support for market visits and participation in trade shows, Austrade also runs products showcases in markets on behalf of clients, and is stepping up the use of video conferencing to provide direct market feedback to clients from staff and potential buyers and provide exporters with a virtual and cost-effective means of communicating with their importers, distributors and key clients.

In NEA, Austrade assists **experienced exporters** to consolidate and expand their existing markets through a wide range of tailored service offerings. In recent years, increased effort has been dedicated to proactively identifying potential new buyers of Australian products who can be introduced to Australian suppliers. Large buyer missions are organised to numerous events in Australia such as Rosemount Fashion week, Design Build Australia, Fine Food Australia, CEBIT Australia and so on. Buyers from across Asia are also escorted to / at major regional trade shows such as Cosmoprof and HOFEX in Hong Kong so that Australian exhibitors can meet potential importers from many markets at the one event.

In 2008-09, responding to the Government’s agenda regional teams will look to identify **larger projects** which **clusters of Australian companies** may be able to work on cooperatively as well as assisting companies with more complex business

opportunities including assistance to access global supply chains. The infrastructure, mining and automotive sectors will be prime targets for projects of this type.

Recognising the growing interconnections between trade and investment, Austrade's NEA team is working to strengthen the support it provides to Australian companies seeking to **invest overseas** to capture production or R&D capabilities, or locate closer to market opportunities. China presents the largest opportunity for outwards investment but all other markets in NEA actively court foreign investment and establishing an in-market presence is essential for many industries in the services sector if they are serious about building a substantial market presence. Austrade typically focuses its work with such clients on the early fact finding and development stage and issues that benefit from the 'badge of government', referring them to professional service providers in the market as and when appropriate.

In 2008, there has also been a focus on managing the integration of **inward investment promotion** into NEA posts following the official integration of this function into Austrade on 1 July. There is significant potential to leverage the wider Austrade network to capture more investment leads from other business contacts to complement the work of the specialist investment team.

Resources and agribusiness / food processing are areas of traditional interest for investors from the region. Examples of other areas being targeted for promotion include renewable and clean energy, environmental technology, bio/pharma and financial services.

Following the success of the BCA Beijing Olympics 2008 program, the region will look for other opportunities to **leverage large events**. Early planning has begun on a program of over 20 industry-focused business matching and networking events during the 2010 Shanghai Expo. The Australian soccer team's entry to the Asian Football Confederation will provide further opportunities to leverage sport to the benefit of business networking for Australian companies.

With an extensive network of offices and experienced staff Austrade is well positioned in China, Japan and Korea to assist companies to take advantage of possible future **free trade agreements** (FTAs) with those countries. Austrade supports DFAT in the FTA negotiations by identifying trade and investment impediments experienced by Australian companies, and helping DFAT target Australian companies for consultations.

The region also contributes to Austrade-wide efforts to **raise awareness and promote understanding of the benefits of trade and investment** in the community in the region (e.g. by briefings for visiting student and special interest groups) and in Australia (via briefing programs, seminars, etc conducted by experienced managers visiting from the market).

ASEAN

The opportunities offered under the proposed ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA) have the potential to benefit a broad range of Australian industries, and companies from regional and metropolitan areas, and from the big and small ends of town. Given the proximity of ASEAN markets to Australia and the comparatively low cost of servicing customers in this region, this development offers substantial growth prospects for our companies, including those that have never before exported, and including those already successful in other ASEAN markets, provided that expert trade advice and assistance is available.

Austrade's experience with the Singapore-Australia FTA and Thailand-Australia FTA confirms the critical importance of a sustained marketing and promotion program to business communities both in Australia and in the partner countries to ensure they are aware of the advantageous regulatory changes. Often such changes are just as important to importers, who can benefit from lower import costs from lower tariffs, as to Australian exporters.

Austrade expects a substantial increase in the active commercial engagement by Australian industry in the markets of ASEAN. A recent restructure of regional operations in ASEAN into ten cross-regional industry teams will help existing resources target and capture strategic and sustainable market outcomes for existing Australian companies across multiple ASEAN markets and help our clients take advantage of the region's diversity. At the core of Austrade's approach to AANZFTA will be a commercial strategy that is currently being developed and will become active once AANZFTA has been legislated, subject to additional resourcing.

South Asia

Substantial opportunities exist for Australian companies and investors across a broad range of sectors of the Indian economy, particularly in financial and other services, infrastructure, agribusiness, food and beverages, consumer and retail, education and mining, as well as inwards investment and opportunities for outwards investment such as in the funds management area and areas of clean energy and environment.

Austrade India has been delivering a program of presentations on Australian capability through select Indian second tier cities with events delivered to twenty cities in 2007-08, and a program to expand delivery to thirty cities in 2008-09. A second tier city is defined as having a population of more than one million people and industry alignment with and / or demand for Australian products and services. Examples of second tier cities are: Bangalore, Chandigarh, Coimbatore, Hyderabad, Jaipur, Kolkata, and Pune.

Austrade established the *Utsav (Celebrate) Australia* program, which has established a recognised brand in India, with a website that is now achieving monthly hits in excess of those of the Austrade site in Australia. Marketing data collected has shown the reach and recognition has exceeded initial targets and the usage of the brand and logo has been progressively expanded across industry sectors, events, projects and activities. By aggressively marketing Australia *Utsav Australia* has contributed significantly to the growth in Austrade's ability to help Australian companies win export business in India.

In Pakistan Austrade focuses its efforts on facilitation of Australian exports in key sectors such as agribusiness, resources and minerals, infrastructure, services, including education, agribusiness, consumer/lifestyle and retail and increasing the market share of Australian food products.

Since 2006 Austrade has worked to increase specifically the commercial agribusiness engagement and cooperation with Pakistan through AusAid funding. This has been achieved through a range of in-bound buyer visits, and a major dairy mission to Pakistan, which have served as a major catalyst for the export of breeder dairy cattle to Pakistan for milk production and herd improvement.

Pacific

In the Pacific, Austrade's strategy is to increase bilateral commercial activity by:

- Focusing on high-potential sectors of opportunity for Australian capability. These include resources, industrial, building and construction, education and food and beverages sectors.
- Increasing the identification of market opportunities and seeking to match those opportunities with Australian companies with supply capability.
- Continuing to attract active involvement by Australian companies in exhibitions and promotions in the Pacific that have prospects to deliver commercial outcomes.
- Diversifying geographically and sectorally into areas that are more resilient and less prone to economic/political shocks in some countries, e.g. multilateral aid projects, pharmaceuticals and education.
- Facilitating buyer visits to Australia around major trade events.
- Facilitating business missions from Australia to targeted Pacific countries / opportunities.

6. Delivering Results for Australian Business

Specific examples are provided below of individual business experiences in the markets this inquiry is focussing on and the work that Austrade does to assist these businesses enter international markets.

Latin America

Fashion/lifestyle - Billabong

- Billabong, the iconic Australian brand of boardsport, consumer fashion clothing and Olympic sports products, is now the number-one sportswear and surfwear brand in Peru and is also selling in Argentina, Brazil, Chile and Venezuela. Their stores in Peru and Chile will be expanded from 5 to 15 in 2008. Austrade in Peru and Chile provided support in getting the brand known in these countries.

Outward investment Brazil - Coffey Mining

- In September 2007, Coffey International Limited signed an agreement to acquire Geoexplore Consultoria & Servicos Ltda, regarded as Brazil's leading consulting company in exploration project management services. Austrade assisted with introductions, co-coordination of meetings with potential clients and in identifying potential acquisition targets.

Mining services and technology - Minecom

- Tasmanian Minecom, a specialist mine communications company, is located at Devonport on the northern shore of Australia's island state. Minecom produces 'distributed antenna systems' (otherwise known as 'leaky feeder'-based systems); wireless LAN, fibre optics, tracking and tagging systems; electronic safety systems; and video surveillance systems and is entering the Latin American market with these products.

Advanced manufacturing bank notes - Securency

- In 1996, the Reserve Bank of Australia set up the company, Securency, as a joint venture with Innovia Films in the UK to market the polymer banknote substrate and related technologies. Securency is now recognised as a world leader in polymer substrate. Latin America has been an area of recent intense activity, with sales of Securency technology to Brazil, Chile and Mexico, while Nigeria is soon to join Zambia as part of the African polymer family.

Mining equipment - Caterpillar

- Eight years ago the first Australian-made Caterpillar earthmoving truck was shipped from Tasmania to Peru. Today, dozens of Tasmanian-made Cats are being shipped to Peru to operate in mines as the metals boom continues. Caterpillar's success in Peru is due in part to the quality of their local partner and exclusive distributor Ferreyros: a very well respected importer of mining and other heavy equipment, and being associated with them locally is a huge advantage. Austrade Lima has assisted Caterpillar and their local partner over the years particularly by highlighting Caterpillar's Australian connections at the annual Australia Business Week held every Australia Day in Peru.

Clean Energy - Pacific Hydro

- Pacific Hydro came to Chile in 2002 seeking an opportunity to acquire some water rights for a Hydro project. Austrade provided assistance and the company was successful in acquiring the water rights and set up a two people office in Chile to develop the project and seek financing. Austrade again provided support in making contacts with different groups in Chile that could be interested. Pacific Hydro has partnered up with a Norwegian company to develop a 150 MW project with a potential second phase of another 150MW. The first one of these projects is about to come in line and the second one is well under construction. The company is well settled in Chile with a large contingency of people and experts in each area and keep close contact with Austrade seeking advice as required.

North East Asia

Delivering Industry Policy Outcomes for the Government

- Austrade took bioscience company BTF on a journey from industry grants to export success. BTF developed microbiological testing technology following the 1998 Sydney water crisis. Around 25 to 30 per cent of BTF's business now comes from Japan, following Austrade's assistance in 2002 to explore relationships with potential customers.
- By 2011, all take-offs and landings of all aircraft across all airports in Taiwan will be using Australian designed and developed air traffic control systems, after Thales Australia won the supply contract 12 months ago. Austrade supported Thales by supplying contacts and customer leads within the Taiwanese market.

Improved Market Access Led to Exports

- Hong Kong and Macau have removed import duties on wine and beer in two stages since 2006, leading to an increase in exports. Austrade supported DFAT in arguing for a reduction in the tariff and then leveraged its relationships with importers and suppliers to raise awareness of the new market opportunity generated. Australian bottled wine exports to Hong Kong increased by 55 per cent in 2007 after the first reduction in wine tariffs from 80 to 40 per cent, and grew a further 56 per cent in the first half of 2008 after the tax was reduced to zero.
- After six years of lobbying by business and the Australian Government, Australian white cypress has been accredited for use in the Japanese building market. The work of Austrade's Nagoya office to stimulate demand among Japanese buyers and coordinate Australian industry lobbying was recognised by the NSW Forest Products Association at a ceremony at NSW Parliament House. Due to this accreditation of Australian white cypress, sales of over \$5m a year to Japan are expected as a result.

Rural & Regional Exports

- The second of Incat's landmark 112-metre Wave Piercing Catamarans – Natchan World – entered service in Japan on 2 May 2008. Natchan World is both Incat's and Tasmania's most valuable export to date and heralds a new era for Australian elaborately transformed manufactured exports to Japan. Austrade has been supporting Incat in the Japanese market for several years, in particular by helping Incat to successfully navigate Japan's regulatory approval process.
- Tasmanian-based Waverley Australia has found success selling their high-quality blankets to mainland China. Waverley's overseas brand is called Waratah and its first Waratah store in the world opened in Ningbo in North Eastern China in December 2006. Austrade has assisted Waverley's export success in mainland China by sourcing potential business partners, facilitating meetings and providing translation services.

Government's Focus on Clean / Renewable Energy

- Tasmanian renewable energy company, Roaring 40s is building huge wind farms in mainland China. Roaring 40s' Australian parent, Hydro Tasmania, owned by the State of Tasmania, is Australia's leading renewable energy business. Last year, Roaring 40s signed a joint development agreement with one of mainland China's largest energy generators, the China Datang Corporation, to construct one of the world's biggest on-shore wind farms in Jilin Province, north-eastern China. Austrade facilitated their participation in Austrade Clean Energy Missions to mainland China in 2006 and 2008 and provided contacts and meeting arranging services with suitable Chinese companies, and high level customer networking in both Beijing and Guangzhou.

Government's Focus on Services

- Austrade helped an Australian special events producer find success in Shanghai, mainland China's largest commercial city and the site of the 2010 World Expo. Over the past two years, Sydney-based Turningpoint Solutions has designed and produced a number of high-profile special events in Shanghai for international organisations. Austrade helped Turningpoint with initial direction in the market, and then with business matching, utilising Austrade's depth of China knowledge, experience and enthusiasm.

Business of Sports

- Officially endorsed by the Australian Olympic Committee (AOC), Austrade's Business Club Australia (BCA) Beijing program was the Australian Government's official international business program for the Beijing 2008 Olympic Games. During the Games, BCA successfully delivered more than 50 events and hosted over 4000 business people. BCA Beijing delivered a complex program that brought together government, the corporate sector and industry to present a united Australia during the Games. It was one of the biggest business programs run in Beijing by a foreign government, focusing on a range of key sectors including clean energy, financial services, sports infrastructure, and mining. The IOC has asked for a case study of the BCA Beijing program.
- Austrade will continue to work with companies pursuing opportunities stemming from the Guangzhou 2010 Asian Games, New Delhi 2010 Commonwealth Games, and London 2012 Olympics.

ASEAN

Agribusiness and Consumer

- The Malaysia Agriculture, Horticulture and Agrotourism Show (MAHA) is held every two years. In 2008 some 20 Australian companies were represented at the Austrade-managed event. Product and services exhibited included livestock, fertiliser, animal nutrition and land-based aquaculture production. Austrade staff from Brunei, Thailand and the Philippines accompanied buyer delegations from these countries. Business generated by MAHA 2008 is still being negotiated, but is already in excess of A\$10 million.
- Loider Inc specialises in the distribution of dermatological products to medical professionals. Loider Inc approached Austrade Manila in 2007 to inquire about sun protection products from Australia, based on Australia's reputation for quality skin care products. Their interest expanded to include cosmeceuticals, health supplements and niche products. The company attended Cosmoprof Asia 2007 in Hong Kong, which enabled them to become the distributor for LaVendi Skin Tech, Marine Blue Australia, Megan Gale and Rainforest Remedies in the Philippines. They have now expanded operations to Vietnam.

Food and Beverage

- Top8 Wines Pty Ltd is the brainchild of Brunei-born Francis Wong, who now lives in Adelaide. Top8 Wines' concept is to present collections of Australia's best boutique wines that are most suited to the palates of a particular Asian market. Asia is not a homogeneous market and the collections offered vary from market to market. Top8 Wines started marketing in Malaysia first, which is the most difficult market because of its diversity. Austrade has assisted Top8 Wines selling into China, Hong Kong, Taiwan, Singapore and Malaysia.

ICT

- Barrett Communications Pty Ltd is a manufacturer of long distance high frequency communications equipment, the company is based in Perth, Western Australia. They have been successful exporting their HF Radio Equipment to various markets in the ASEAN region to date. Austrade Jakarta has worked closely with Barrett since 1998, introducing them to local contacts and potential partners. Austrade Singapore has assisted the client for CommunicAsia for the past 10 years and successfully introduced them to Business Development Managers in the Philippines, Thailand and Malaysia where they have now expanded activities into. Barrett is a key example of what can be achieved for clients through successful client migration in the ASEAN region.

South Asia

Financial Services

- Fund and asset manager Babcock & Brown Ltd has recruited a team of eight local investment professionals in India to maintain a local presence in the market. The eight are all Indian nationals who have been operating in that market consistently over the past 10 to 15 years. The team will be located in Mumbai and Delhi and complement existing activities in India.
- IAG has entered into an exclusive joint venture with State Bank of India, which is expected to begin business in 2009 once a binding agreement has been signed and approvals granted. IAG had identified India as a growth market – India's general insurance sector having grown at a compound annual growth rate of 14 per cent over the last five years and predicted to grow 15-20 per cent per year over the next 10 years. State Bank of India is the leader in the Indian banking sector and the establishment of a general insurance partnership with them is the result of 18 months of negotiations.

Pacific

Investment into the Pacific

- In April 2008, Austrade ran advertisements in The National and the Post Courier newspapers in PNG seeking expressions of interest from local companies in joint venture projects and investment from Australia. A total 133 responses were received and over 40 of these companies were subsequently interviewed by the Senior Trade Commissioner and the Pacific Investment Commissioner to qualify their business proposals for follow-up with potential Australian partners.

Mining

- In March this year 15 Australian companies participated in the annual Austrade-organised Mining Mission to New Caledonia, which comprised industry meetings, site visits, networking functions and individual appointments. Within three months of this visit, six companies had won \$9.8m in new business, with more under negotiation.

7. Issues for Australian Business

Latin America

Despite growing markets, strong economies and more investment and trade friendly government policies emerging in key markets, there remain some key challenges for businesses looking to expand into Latin America. These include the cost and time of doing business, lack of direct shipping, difficulties arising from language and finding local support, identifying a suitable local partner, sourcing internal corporate resources for market development and non-tariff barriers to market access.

While transport links to Latin America are improving, a permanent local presence remains a key requirement for most substantial Australian business activity in the region because of the distance factor. This can be a costly and time consuming process, requiring a minimum of 12 months and navigation of sometimes complex legal and financial regimes. The requirement to operate in a foreign language and employ local staff also complicates this situation.

A critical role Austrade plays to assist Australian businesses in this context is the provision of referral to suitable and tested local legal, financial and other professional service providers. Another key Austrade service is assistance with identification of suitable local business partners who can play a vital role in smoothing the path of market entry and dealing with local regulatory and other obstacles.

Lack of direct shipping remains a key obstacle to merchandise trade between Australia and Latin America. The requirement to ship goods via Singapore or the United States adds considerably to the logistical challenges of doing business and discourages many from contemplating these markets. While this is not something governments can address directly, Austrade believes that high level advocacy with key shipping lines could be beneficial in hastening the commencement of direct shipping.

Market awareness is also a challenge within corporate structures. Executives based in Latin America can struggle to compete for internal resources despite a strong business case. This may reflect out-of-date views within senior corporate levels in Australia and a preoccupation with other emerging and traditional markets. Apart from a few key Australian corporate investors in Latin America, the majority of activity in these markets is directed by middle-level executives who in many cases are yet to fully convince CEOs and boards of the level of business potential these markets hold.

North East Asia

Australian companies face a diverse range of challenges doing business in North East Asia. These include:

- Restrictive trade and investment barriers and beyond the border restrictions for some products and services.
- Sometimes opaque or inconsistently enforced regulatory regimes (in some cases, favouring local 'champions') which create commercial uncertainty and risk.
- Difficulty in finding the right information to inform good decision-making
- Difficulty in judging potential partners in an unfamiliar environment.
- Diverse commercial practices.
- Substantial cultural and linguistic differences.
- Intense competition from domestic and international rivals.

The challenges outlined above exist in most of the markets across the region. Others are more specific to individual markets. For example:

- In China exporters and investors need to develop strategies to deal with an environment in which the legal framework protecting intellectual property rights is now quite comprehensive but enforcement remains very patchy.
- Japan is probably the most technically demanding of all the markets of the region, often requiring the largest commitment; but the flip side of this is that it is also a very rewarding market, often on a very long term basis for those who do persevere and succeed.

As outlined in more detail elsewhere in this submission, Austrade's services and activities aim to assist companies deal with these challenges.

Austrade regularly holds information seminars for Australian businesses, usually showcasing experienced practitioners who discuss their experience dealing with challenges of the type outlined above. More specialised seminar series are also held:

- In 2007, Austrade's China team held a major series of seminars across Australian capitals on IP protection in China that attracted over 1000 attendees.
- Seminar series on the technical regime governing food imports to Japan and Korea were held in 2007 and 2008 respectively.

More generally, Austrade's network of offices across NEA provides information, introductions and other practical on the ground support, identifying opportunities and potential partners while at the same time assisting companies to reduce the cost, time and risks involved in doing business in these markets.

Apart from this direct support, Austrade provides feedback from the 'front-line' to DFAT on practical impediments to trade to feed into its work to improve the trade policy framework.

ASEAN

At the company level, the emerging ASEAN community generates a paradox. A progressively more unified and borderless ASEAN will come with tremendous marketing opportunity, but pose greater business challenges to the local players in the region and those companies exporting or seeking to export to the region from Australia. Their competition has now increased from other local and domestic players to companies from neighbouring countries and multinationals penetrating the market.

Like most markets in Asia, the markets of ASEAN are highly competitive and complex, and knowing who to contact and how to do business can be challenging and time/resource intensive. Competition is an issue for Australian companies in many ASEAN markets, and in some the lack of legal certainty can effectively curtail significant increases in productive foreign investment, and not just from Australia

Political and macroeconomic stability remain issues for business, as are corruption and behind the border barriers to export.

South Asia

India is a complex market to do business in and many Australian companies are uncertain about the nature of business opportunities in India and how to do business. Increasingly, Australian business is facing aggressive competition from other countries seeking to win market share in India.

There exists a misconception that India is an unsophisticated market where it is easy to sell cheap products. The reality is that the rapidly growing middle class in India are sophisticated consumers, who can choose the best products from a plethora of products on offer.

Similar to the ASEAN region, finding the right partner for business in South Asia and obtaining a clear understanding of the complex regulatory issues both at State and Federal level is critical to the level of success of Australian companies.

Pacific

The main issue with the Pacific for Australian business is one of opportunity cost. With widespread opportunities in China, India and the Middle East, it is a challenge to convince Australian companies that many opportunities in the comparatively smaller markets of the Pacific are commercially attractive and worth pursuing. This is generally not an issue for companies that have done business in the region, but is a potential barrier to new entrants.

In addition to market size limitations, the business image of the Pacific lags. Business perceptions of the Pacific are more likely to be of small businesses often linked to the prosperity of the tourism sectors in the region, and often with an overlay of economic challenges and political instability. In addition, there are relatively high costs for telecommunications, air travel is comparatively very expensive and services limited, especially within the region, and shipping services can be infrequent, with limited destinations.

Despite all this, competition is increasing. China in particular has been actively courting the Pacific commercially, offering soft loans and tied aid, aggressively bidding on infrastructure related projects and seeking to secure commercial rights or at least preferential access to natural resources including marine resources (such as

fishing rights). New Zealand consolidators are also active in the South Pacific, often offering Australian products or services as part of their offering.

The reason Austrade has a presence in Port Moresby, Suva and Noumea is to help Australian companies identify, pursue and secure worthwhile business opportunities in these markets, and encourage them to see the role the Pacific can play in an international business strategy. Given the results achieved with Austrade support by committed Australian companies in the Pacific region, the investment of resources on behalf of the Australian Government has so far proven worthwhile and demand for the services of Austrade in these markets continues to grow.

8. Conclusion

Generally speaking, the Asia, Pacific and Latin American regions continue to provide abundant opportunities for Australian business. Both the ASEAN and Latin American markets, due to their population size and stage of development, offer enormous potential to be much larger trading partners with Australia. The proposed Free Trade Agreements with ASEAN and with Chile are expected to be strong catalysts for an expansion in trade with these regions. Once approved, Austrade will be capitalising on interest generated by the FTAs to promote these markets to Australian business.

China is expected to continue to grow as a market for Australia with opportunities for Australia across a wide range of industry sectors, reflecting the continental scale of its economy. New opportunities will continue to emerge in second and even third tier cities as urbanisation spreads, underpinning demand for raw materials, capital goods and technology, and consumer incomes rise.

At the same time, India is expanding at a rapid rate and offers the potential to considerably increase the Australia-India economic relationship. The key for engagement with India is to capitalise quickly on current opportunities in those sectors where Australia can offer expertise in the midst of increasing global competition.

Austrade is in the Asia, Pacific and Latin American regions for the long haul, and will continue to identify potential business partners and opportunities for Australian business to further strengthen the already close commercial ties that exist.

Austrade, Canberra

17 October, 2008

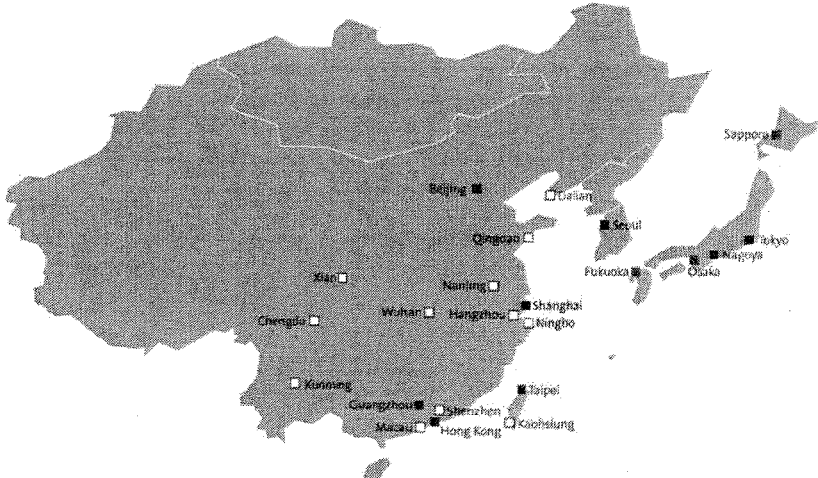
Appendix A

Latin America



North East Asia

NORTH EAST ASIA



- Austrade Post
- Austrade Sub-Post
- ▽ Austrade Out-Post

South East Asia, South Asia and the Pacific

SOUTH EAST ASIA, SOUTH ASIA AND PACIFIC

